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Dismantle the Three Lines of Defense: Embrace Continuous Risk Management!

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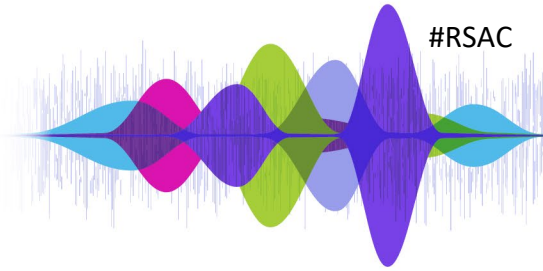

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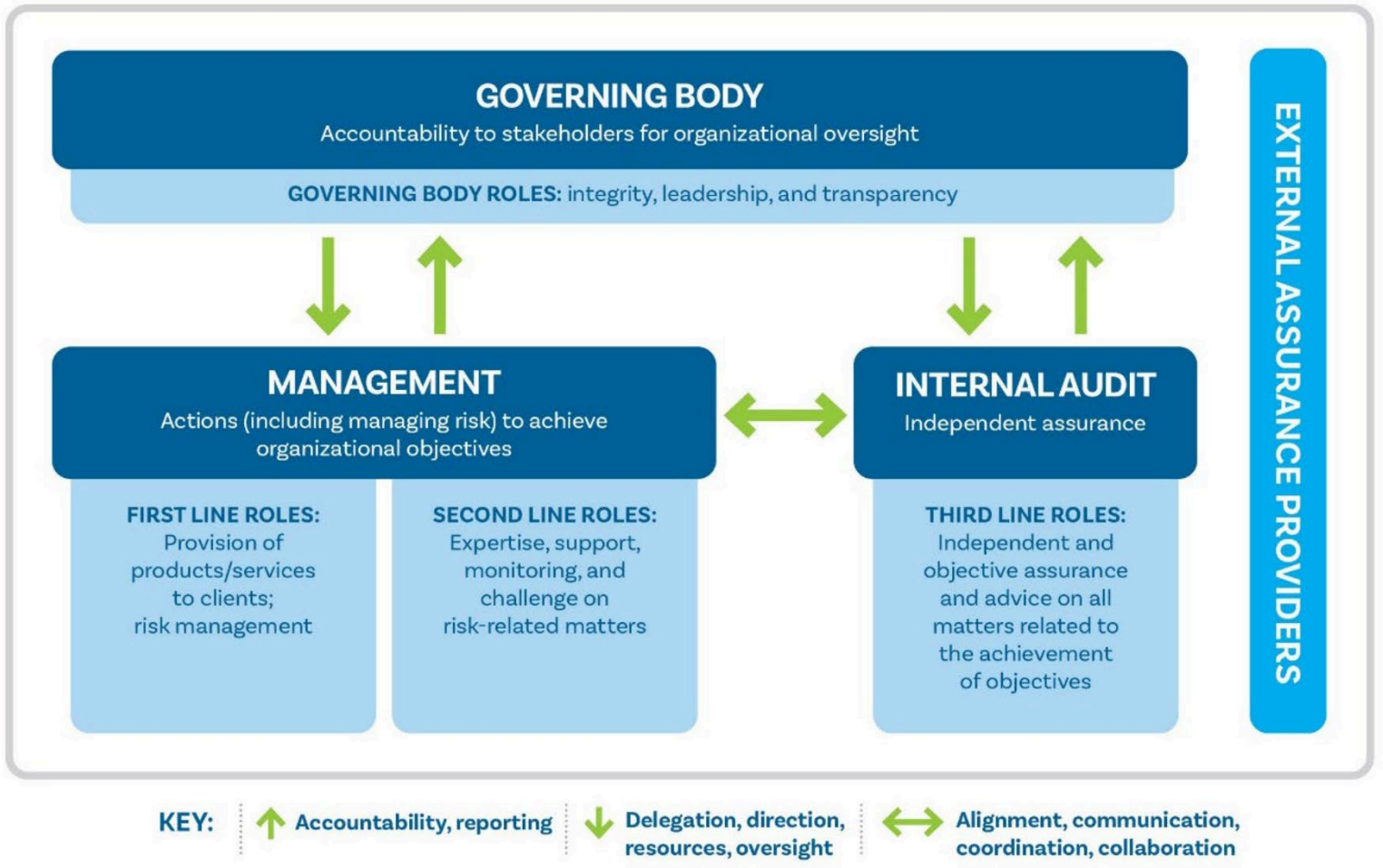
THREE LINES OF DEFENSE

Three Lines Of Defense (3LoD) Model


GOVERNING BODY
Accountability to stakeholders for organizational oversight
GOVERNING BODY ROLES: integrity, leadership, and transparency
MANAGEMENT
Actions (including managing risk) to achieve organizational objectives
INTERNAL AUDIT
Independent assurance
FIRST LINE ROLES: Provision of products/services to clients; risk management
SECOND LINE ROLES: Expertise, support, monitoring, and challenge on risk-related matters
THIRD LINE ROLES: Independent and objective assurance and advice on all matters related to the achievement of objectives
EXTERNAL ASSURANCE PROVIDERS
KEY:
Accountability, reporting
Delegation, direction, resources, oversight
Alignment, communication, coordination, collaboration

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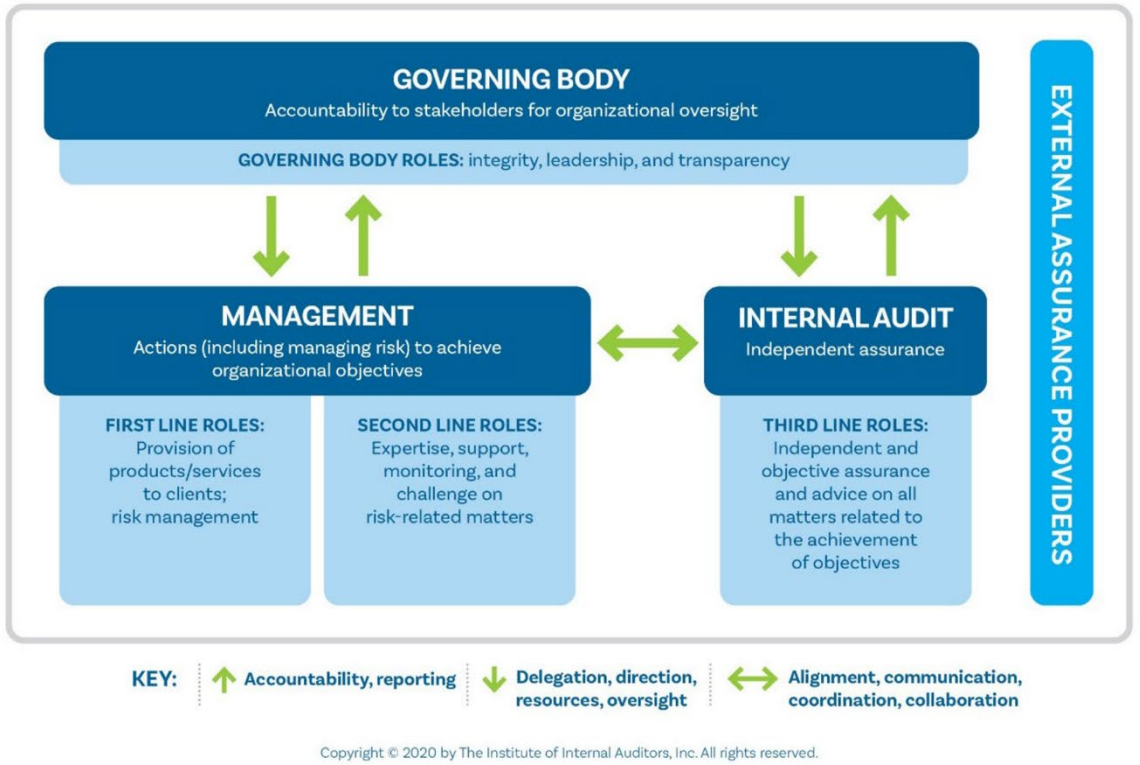
3LoD doesn't hold up to today's demands

- **Functional, not directional.** Won't steer the organization towards its goals!
- **Inherently siloed.** Creates a tug-of-war between who owns the risk and who owns the budget!
- **Static, not dynamic.** It does not hold up under change!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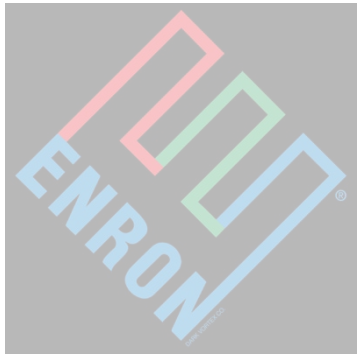
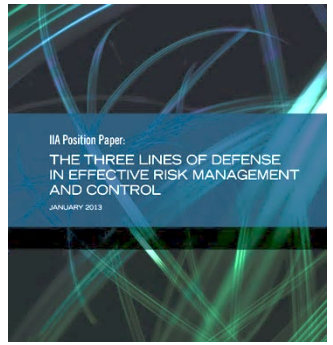
How did we get here?





2001 **2002** **2003** **2008** **2013**

How did we get here?

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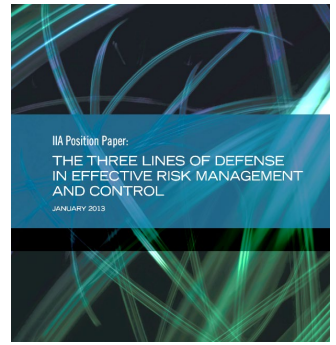
AIG, Lehman Shock Hits World Markets
Focus Moves to Fate of Giant Insurer After U.S. Allows Investment Bank to Fail; Barclays in Talks to Buy Core Lehman Unit
AIG Faces Cash Crisis As Stock Dives 61%



2001 2002 2003 2008 2013

Once daily
NONDESCRIPT
Side effects may include: memory loss, obscure diseases, and fatal allergic reactions

- Great marketing doesn't improve efficacy
- Regulatory support doesn't make it mandatory
- Present popularity doesn't equal long-term success

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The world is different now

43%

enterprise risk has increased over the last 12 months[1]

75%

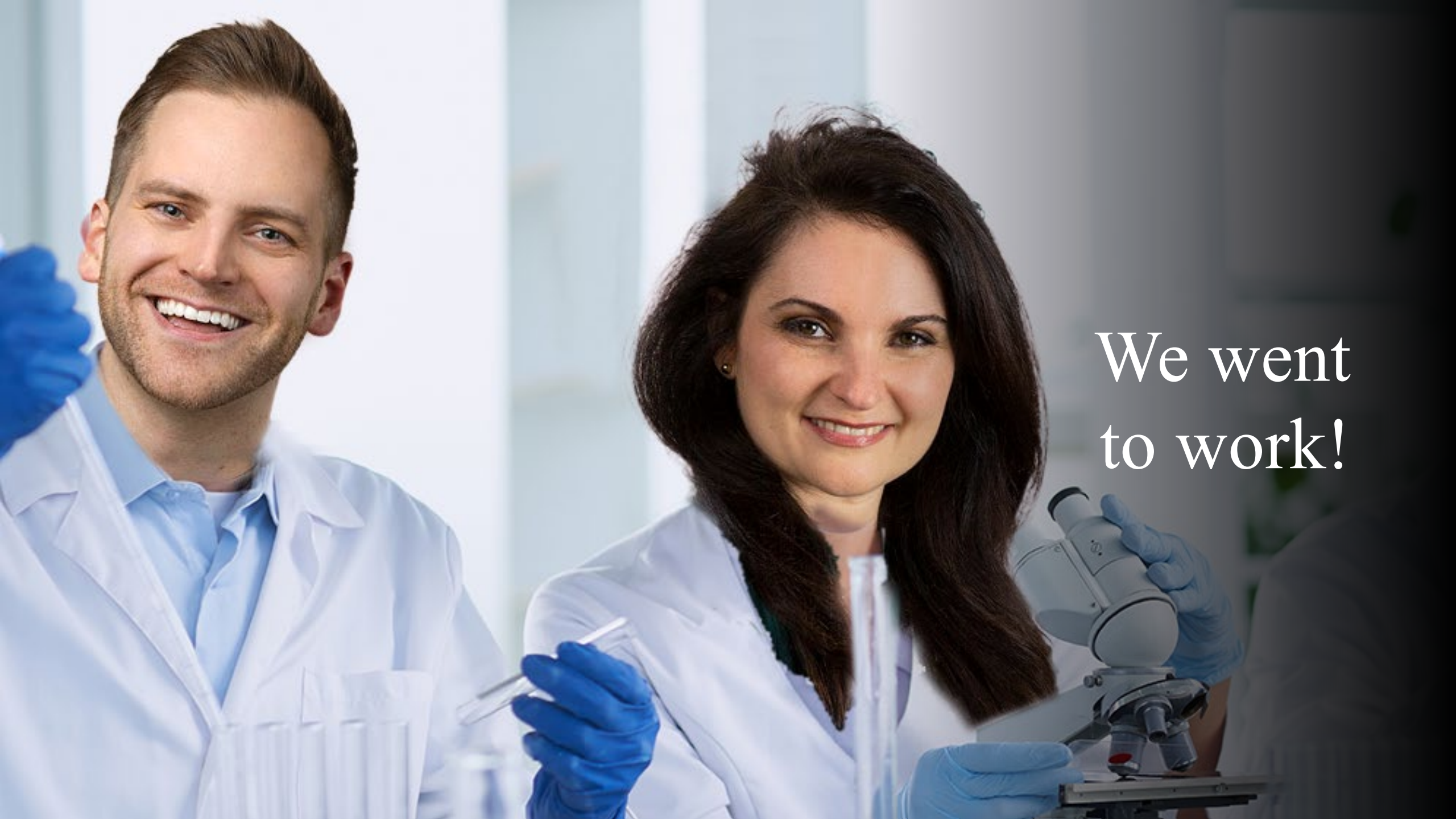
experienced at least one discrete critical risk event in the last 12 months1

52%

experienced at least two breaches in the last 12 months[2]

FORRESTER®

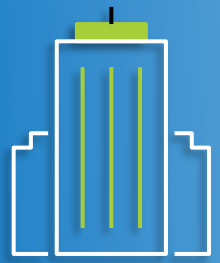
Base 1: 728 enterprise risk management (ERM) decision-makers
Source 1: Forrester's Business Risk Survey
Base 2: 1,488 security decision-makers at enterprise-level organizations (1,000 or more employees)
Source 2: Forrester's Business Risk Survey


We went
to work!

Active ingredients target areas of greatest concern

Addresses ALL risks:

domain agnostic by design



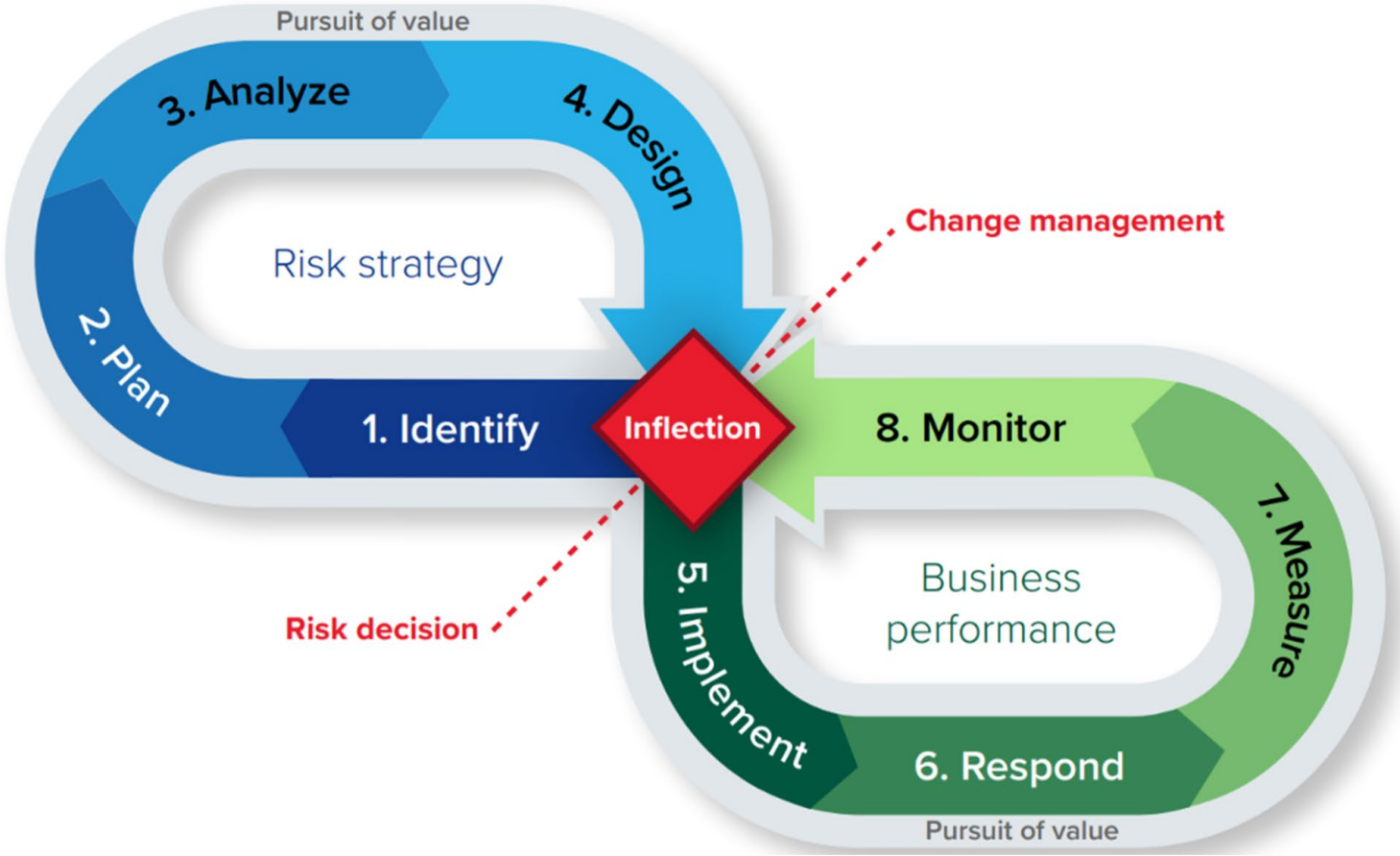
Aligns risk to the business:

bridges strategy with performance

Recognizes opportunity:

built for pursuit of value

Introducing the Continuous Risk Management Model



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PHASE 1: IDENTIFY

Identify the opportunity and the business need

- What is your pursuit of value?
- What do you intend to accomplish?
- Establish the business case

PHASE 2: PLAN

Plan the risk strategy and governance approach

- Define the key objectives and milestones to achieve your pursuit of value
- What are the risks associated with meeting those objectives?
- Refine the business case with your initial risk assessment

PHASE 3: ANALYZE

Analyze the business context and feasibility

- Assessment and due diligence
- Translating the goal into an attainable project
- Finalize the business case and initial project plans based on risk-informed inputs

PHASE 4: DESIGN

Design the risk mitigation approach

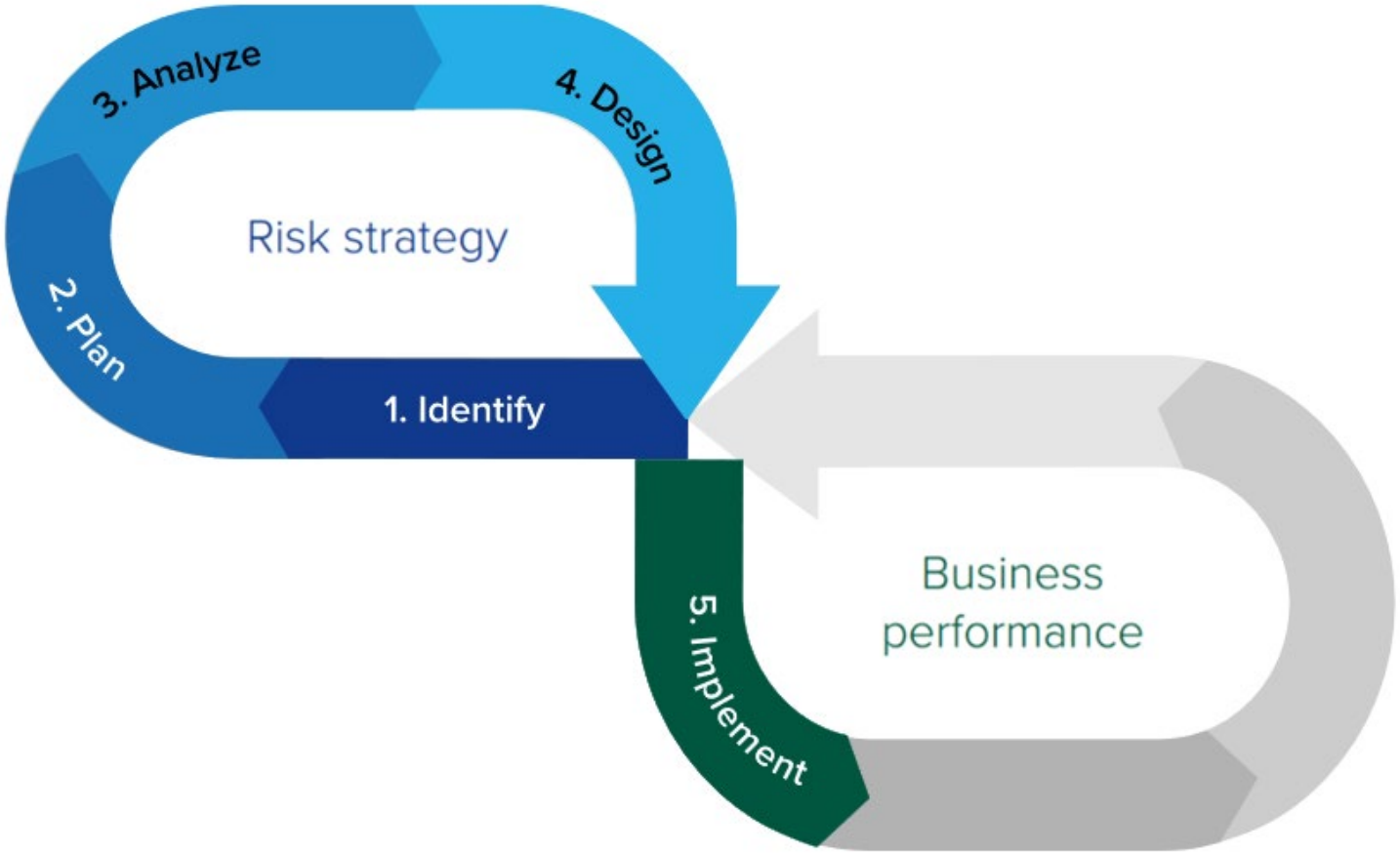
- Identify which risks to accept, transfer, and mitigate
- Incorporate risk mitigation plans into the initial project plan
- Propose an initial control baseline to mitigate identified risks so far

FIRST INFLECTION POINT! RISK DECISION

Risk decisions made earlier

- Risk-based decision to approve the project (pursuit of value) or to go back and revise
- Similar to a formal project approval process – but for risk!
- Communication is key to establish risk and control ownership

PHASE 5: IMPLEMENT



Implement the appropriate mitigating controls

- The tactical work begins
- What is our success criteria for implementing or augment our controls?
- Integrated teams keep the effort aligned

PHASE 6: RESPOND

Respond to deviations from the control baseline

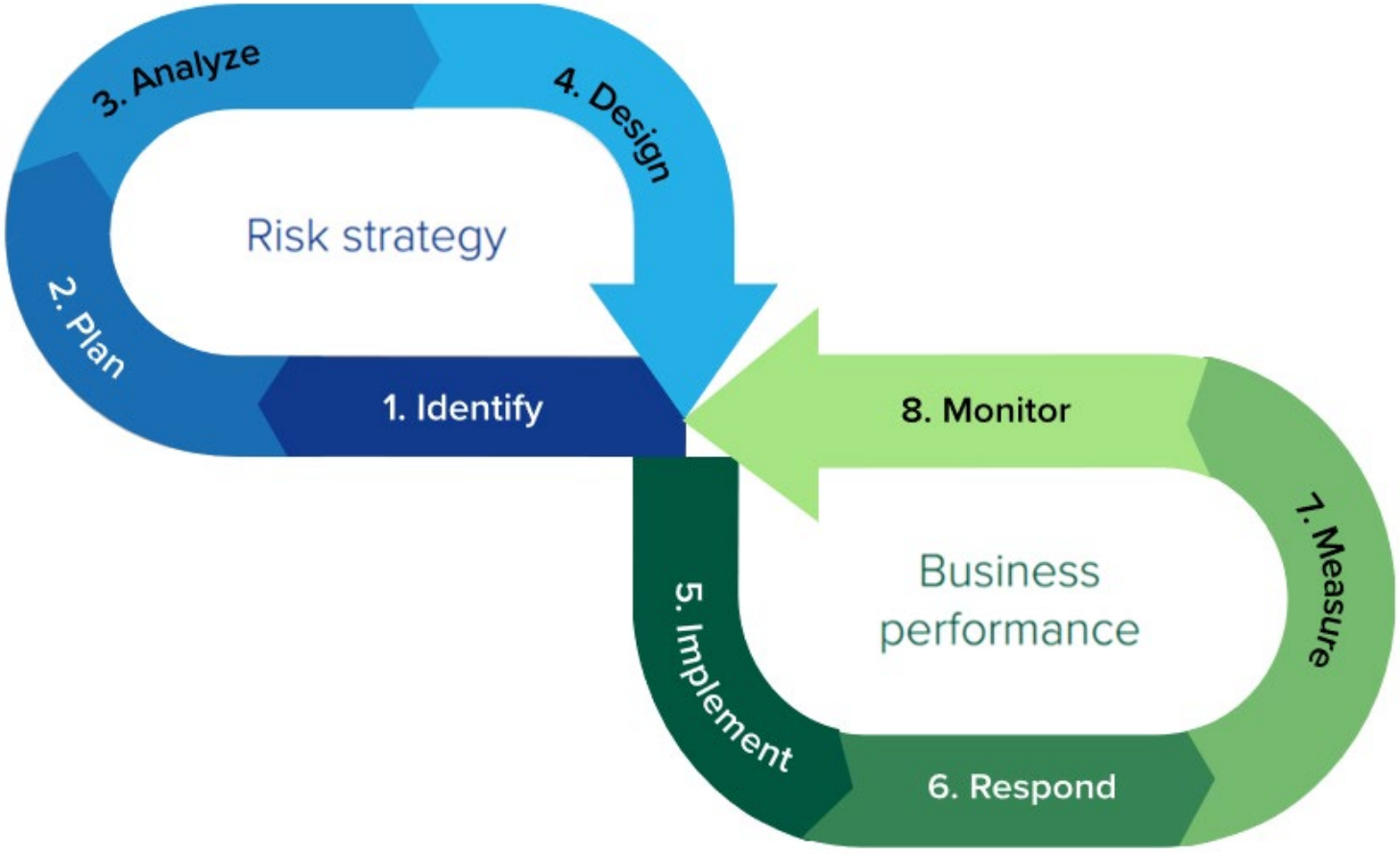
- Change is a constant!
- Are the planned controls still the best option for the job? Has something changed?
- Are additional compensating controls needed?

PHASE 7: MEASURE

Measure control effectiveness against expected outcomes

- You need a risk measurement system
- Control coverage is not enough… how effective are your controls at reducing risk to your pursuit of value?
- Are additional compensating controls needed?

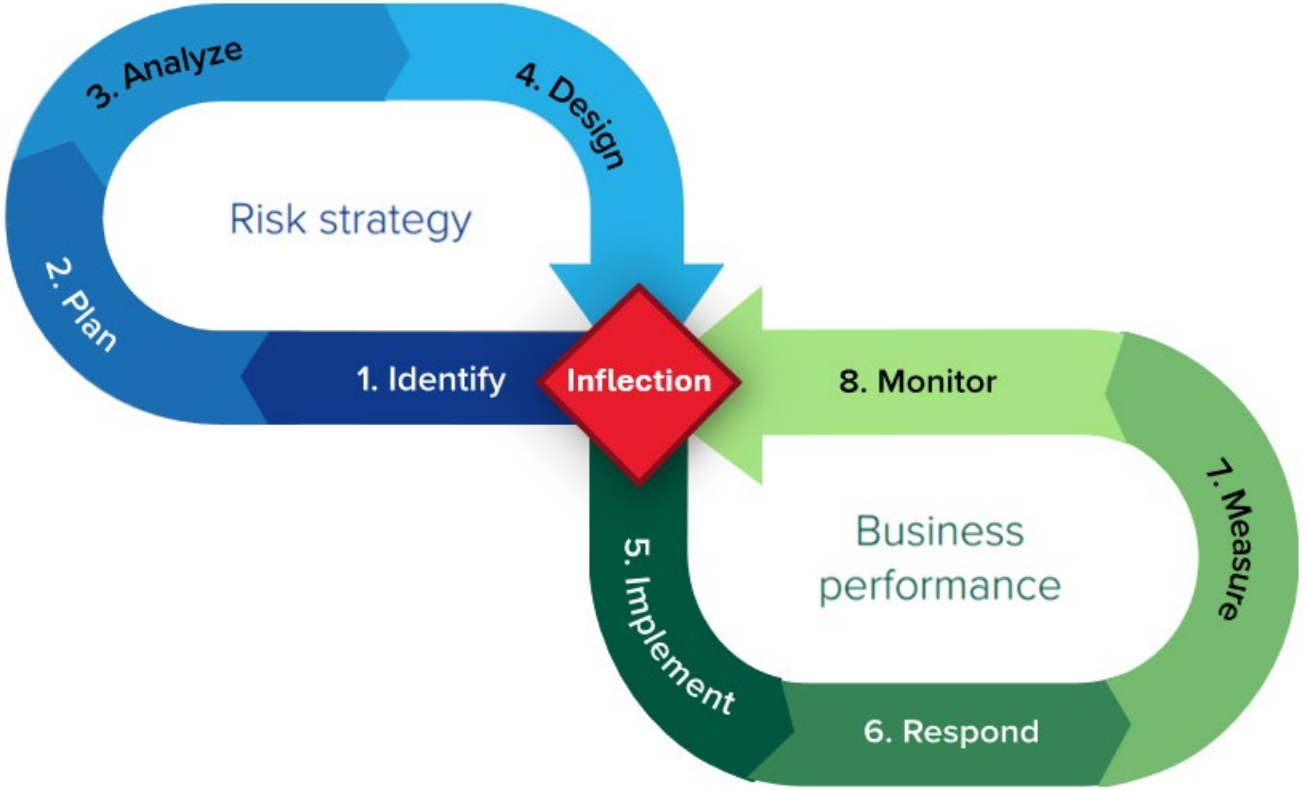
PHASE 8: MONITOR



Monitor continuously and communicate to stakeholders

- What signals, metrics, or indicators can you rely on to know if/when to act?
- How well is your control baseline functioning to reduce risk to an acceptable level for the pursuit of value?

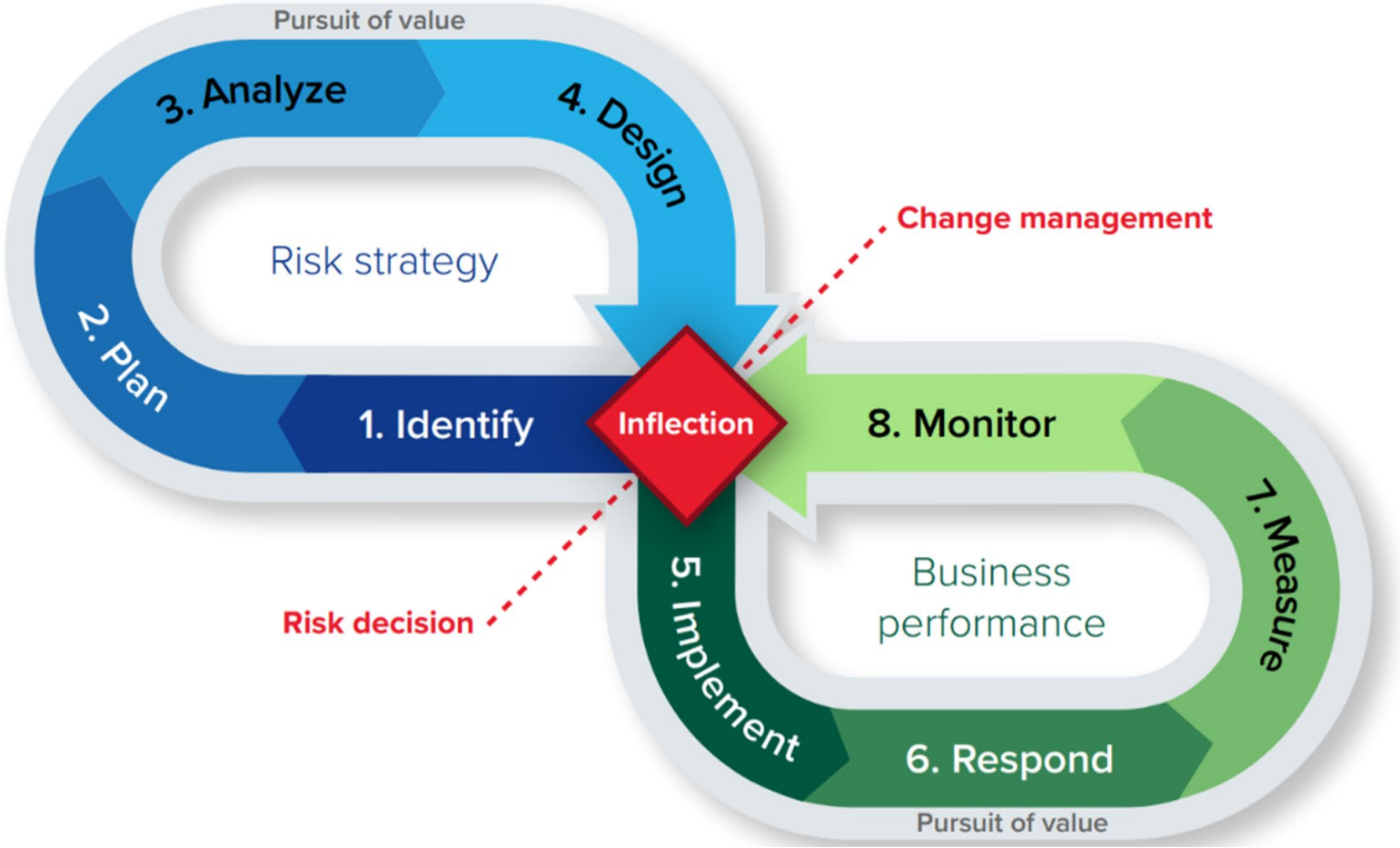
SECOND INFLECTION POINT! CHANGE MANAGEMENT



Your opportunity to make changes

- Change is a constant… and must be managed!
- Avoid the sunk cost trap
- Leverage a risk escalation process
- Are things operating as intended? On schedule? Within budget?

Let's Recap!



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Align the Continuous Risk Management phases with 3LoD nomenclature

	Phase	Objective	Alignment to 3LOD: Leads	Alignment to 3LOD: Supports
1	Identify	Identify the opportunity and the business need	1	2
2	Plan	Plan the risk strategy and governance approach	1	2 3
3	Analyze	Analyze the business context and feasibility	1	2
4	Design	Design the risk mitigation approach	2	1
5	Implement	Implement the appropriate mitigating controls	2	1 3
6	Respond	Respond to deviations from the control baseline	2	3
7	Measure	Measure control effectiveness against expected outcomes	2	3
8	Monitor	Monitor continuously and communicate to stakeholders	2	3

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Recommendations: Start your new regimen today!

Use the Continuous Risk Management model to define your ideal end-state

Mirror your technology workflow to your decision workflow

Use 3LOD to right-size your communication and process structure

Key Takeaways

- Lead with pursuit of value instead of fear of penalties
- Navigate turbulence/uncertainty for resilient outcomes
- Identify upside opportunities and act on them
- Keep pace with speed of innovation

CONTINUOUS RISK MANAGEMENT

Daily treatment for accelerating business, seizing opportunities, and balancing risk management with business performance

Side effects may include:
wild success, better use of time and resources, reduced organizational friction, and better strategic decisions

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